

STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

25 Sigourney Street
Hartford CT 06106-5032

SN 2006(10)

SPECIAL NOTICE

**One-Week Sales and Use Tax Exclusion
in August for Clothing and Footwear Under \$300**

Purpose: This Special Notice describes the annual sales and use tax exclusion during a one-week period in August for clothing and footwear costing less than \$300 per item. The one-week exclusion provided under Conn. Gen. Stat. §407d was repealed by 2003 Conn. Pub. Acts 1, §142 (June 30 Spec. Sess.), and reinstated by 2004 Conn. Pub. Acts 218, §13. The one-week exclusion for clothing and footwear costing less than \$300 per item from the third Sunday in August through the following Saturday remains in effect.

Effective Date: The exclusion applies each year from the third Sunday in August through the following Saturday (for example, for calendar year 2006, August 20 through August 26; for calendar year 2007, August 19 through August 25).

Statutory and Regulatory Authority: Conn. Gen. Stat. §12-407e; Conn. Gen. Stat. §12-412(47); and Conn. Agencies Regs. §12-426-30.

Definitions: As used in this Special Notice:

- **Pay in full** means the customer pays the full purchase price or is fully charged for the purchase price.
- **Delivery** means when the retailer delivers the clothing item to the customer at the retailer's establishment or at the customer's location, or places the clothing item in shipment to the customer.
- **Exclusion week** means the one-week period that begins on the third Sunday in August and ends on the following Saturday.

Nontaxable Sales of Clothing or Footwear: Sales and use taxes do not apply to sales or purchases of clothing or footwear costing less than \$300 during the exclusion week.

The one-week exclusion applies to sales made by Connecticut retailers, sales made by out-of-state retailers required to collect Connecticut use tax on sales to Connecticut customers, and purchases by Connecticut customers on which they would otherwise be required to self-assess use tax.

Exclusion applies to each item sold. The exclusion applies to each item sold, regardless of how many items are sold to a customer on the same invoice. However, the exclusion does not apply to any portion of the price of an item that costs \$300 or more.

Articles normally sold as a unit. Articles that are normally sold as a unit must continue to be sold in that manner (for example, pairs of shoes); they cannot be separated and sold as individual items to qualify for the exclusion.

Example: A suit normally sells for \$400. The retailer cannot sell the pants for \$200 and the suit coat for \$200 during the exclusion week to qualify the suit for the exclusion. However, if the pants and the coat are normally sold as separate items with separate price tags, the exclusion may apply to each item sold.

Exclusion week in lieu of regular exemption. The exclusion week replaces the regular exemption for articles of clothing or footwear costing less than \$50 under Conn. Gen. Stat. §12-412(47), which remains in effect for all other periods.

Reporting Requirements: Sales of clothing and footwear costing less than \$300 are reported on Line 1 of **Form OS-114, Sales and Use Tax Return**. The nontaxable sales of clothing and footwear sold during the exclusion week are deducted on Line 79 of Form OS-114.

Other Issues Related to Sales of Clothing or Footwear: For a list of qualifying clothing and footwear, see **Special Notice 2003(3)**, *Sales and Use Taxes on Retail Sales of Clothing*.

Special Notice 2003(3) also discusses the application of sales and use taxes to cash discounts, coupon sales, and rebates; shipping and handling charges; and monogramming and alterations of clothing.

See *Forms and Publications* on Page 3.

Determining When a Sale Takes Place: The following rules apply in determining whether a sale takes place during the exclusion week. If an article of clothing or footwear costs less than \$50, it is exempt from tax regardless of whether the sale takes place before, during, or after the exclusion week. A sale takes place during the exclusion week when:

Retail Store Sales: If a customer purchases an article of clothing or footwear costing less than \$300 during the exclusion week and the customer pays in full or is fully charged for the item, the clothing exclusion applies even if delivery is made after the exclusion week. If a customer pays a deposit to the retailer for an article of clothing or footwear costing less than \$300 during the exclusion week that is not currently in stock, the exclusion will not apply if delivery is made to the customer after the exclusion week. Delivery is made to the customer when the retailer delivers the item to the customer at the retailer's establishment or at the customer's location, or ships the item to the customer.

Layaway Sales: A layaway sale is made when the customer puts a deposit on the item and the retailer removes it from inventory.

If a customer puts an article of clothing or footwear that costs less than \$300 on layaway during the exclusion week, the item qualifies for the tax exclusion, and none of the customer's payments on the item are taxable even if they are made after the exclusion week. The item will not be taxable when the customer takes delivery or possession of it.

The selling price of an article of clothing or footwear plus any additional charges that the retailer imposes or will impose for a layaway sale are combined to determine whether the item costs less than \$300.

If an article of clothing or footwear was put on layaway prior to the exclusion week and the customer takes possession of the item during the exclusion week,

the item does not qualify for the exclusion, even if its total cost is less than \$300.

Mail Order, Telephone, and Internet Sales: Tax does not apply to the sale of an article of clothing or footwear costing less than \$300 sold during the exclusion week by mail, telephone, or over the Internet.

An article of clothing or footwear that costs less than \$300 is sold during the exclusion week by mail, phone, or Internet when the customer pays the full purchase price or is fully charged for the item regardless of when the item is delivered. If an order for an article of clothing or footwear that costs less than \$300 is placed prior to the exclusion week and the customer pays the full purchase price or is fully charged for the item during the exclusion week, the exclusion applies. If an order for an article of clothing or footwear that costs less than \$300 is placed during the exclusion week and the article is not currently in stock, the exclusion does not apply **unless** the customer pays the full purchase price or is fully charged for the item during that week.

Custom Orders: If the customer places a custom order for an article of clothing or footwear costing less than \$300 during the exclusion week and pays for the clothing item in full at the time the order is placed, the customer will receive the benefit of the exclusion even if the item is delivered to the customer after the exclusion week. If the customer places a custom order for an article of clothing or footwear costing less than \$300 during the exclusion week, and the customer does not pay in full for the item until it is delivered to the customer, the exclusion does not apply if the article of clothing is delivered after the exclusion week.

Clothing or Footwear Rentals: The rental of an article of clothing or footwear costing less than \$300 during the exclusion week is not taxable. The date the customer takes possession of the rented clothing or footwear determines if the rental is made during the exclusion week, even if the customer returns the item to the retailer after the exclusion week.

If the rental period begins before the exclusion week, the exclusion does not apply even if the item is returned to the retailer during the exclusion week. (If the rental cost of an article of clothing or footwear is less than \$50, it is exempt from tax.)

Example: A customer rents a tuxedo for \$105 from a formalwear rental shop. The customer picks up the tuxedo from the shop on the Friday before the exclusion week begins and returns the tuxedo to the shop on the

Monday during the exclusion week. The tuxedo rental is taxable.

Example: A customer rents a tuxedo for \$105 from a formalwear rental shop. The customer picks up the tuxedo from the shop on the Friday during the exclusion week and returns it to the shop on the Monday after the exclusion week. The tuxedo rental is not taxable.

Rain Checks: An article of clothing or footwear costing less than \$300 that is purchased during the exclusion week using a rain check is not taxable.

If a retailer issues a rain check to a customer during the exclusion week for an article of clothing or footwear costing less than \$300 and the customer purchases the item after the exclusion week has ended using the rain check, the item is taxable.

Exchanges: When a customer purchases an article of clothing or footwear costing less than \$300 during the exclusion week and the customer exchanges the item for a like item after the exclusion week, the exchange is not taxable provided the sales price of the like item is also less than \$300. A like item is the same item with a different style, different size, or different color (such as a shirt for a shirt).

If the article of clothing or footwear costing less than \$300 is exchanged after the exclusion week for a different type of clothing item (not a like item), the exclusion does not apply, even if the original purchase was made during the exclusion week and cost less than \$300. (If the article of clothing or footwear costs less than \$50, it is exempt from tax.)

If a customer purchases an article of clothing or footwear costing less than \$300 during the exclusion week, then returns it during the exclusion week for a refund or credit toward another item costing more than \$300, the customer may not use the refund or credit to reduce the price of the second item, even if the customer purchases the second item during the exclusion week. The second item is taxable.

Example: A customer purchases a short sleeve cotton blend dress during the exclusion week for \$120 and exchanges it after the exclusion week for a long sleeve silk dress costing \$200. The second dress is not taxable because the customer exchanged like items and both items cost less than \$300.

Example: A customer purchases a shirt during the exclusion week for \$80 and exchanges it after the exclusion week for a pair of pants costing \$85. The pants are taxable because the customer did not exchange like items.

Example: A customer purchases a suit for \$290 during the exclusion week. Later in the exclusion week, the customer returns the suit and receives full credit toward the purchase of another suit, costing \$350. The second suit is taxable.

Effect on Other Documents: Special Notice 2004(5), *One-Week Sales and Use Tax Exclusion in August for Clothing and Footwear Under \$300*, is modified and superseded.

Effect of This Document: A Special Notice announces a new policy or practice in response to changes in State or federal laws or regulations or to judicial decisions. A Special Notice indicates an informal interpretation of Connecticut tax law by DRS and may be referred to for general guidance by taxpayers or tax practitioners. It is not a legal document.

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area), or
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit anytime by calling 860-297-4911.

Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Preview and download forms and publications from the DRS Web site at **www.ct.gov/DRS**
- **Telephone:** Call **860-297-4753** (from anywhere) and select **Option 2** from a touch-tone phone, or **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area).

Paperless Filing Methods (fast, easy, free, and confidential):

- **For business returns:** Use *Fast-File* to file sales and use taxes, business use tax, room occupancy tax, estimated corporation tax, business entity tax, or withholding tax returns over the Internet. Visit the DRS Web site at www.ct.gov/DRS and click on *File/Register OnLine*.
- **For resident income tax returns:** Use *WebFile* to file personal income tax returns over the Internet. Visit the DRS Web site at www.ct.gov/DRS and click on *File/Register OnLine*.

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